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JUN 3 1996

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

June 3, 1996

Mr. William F. Caton, Acting Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, D.C. 20554

**EX PARTE: Federal/State Joint Board - Universal Service
CC Docket No. 96-45**

Dear Mr. Caton:

On May 30, 1996 representatives of GTE Service Corporation and of GTE Telephone Operations met with Ken McClure of the Missouri PSC and with Martha Hogerty of the Missouri Office of Public Counsel to discuss GTE's position in the above-captioned proceeding. GTE discussed issues made in its comments and reply comments submitted earlier in this proceeding. The attached presentation was used to augment the discussion.

Please call me if you have any questions.

Sincerely,

Whitney Hatch

Attachment
c: K. McClure
M. Hogerty

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021

Universal Service

A Proposal for a National Policy

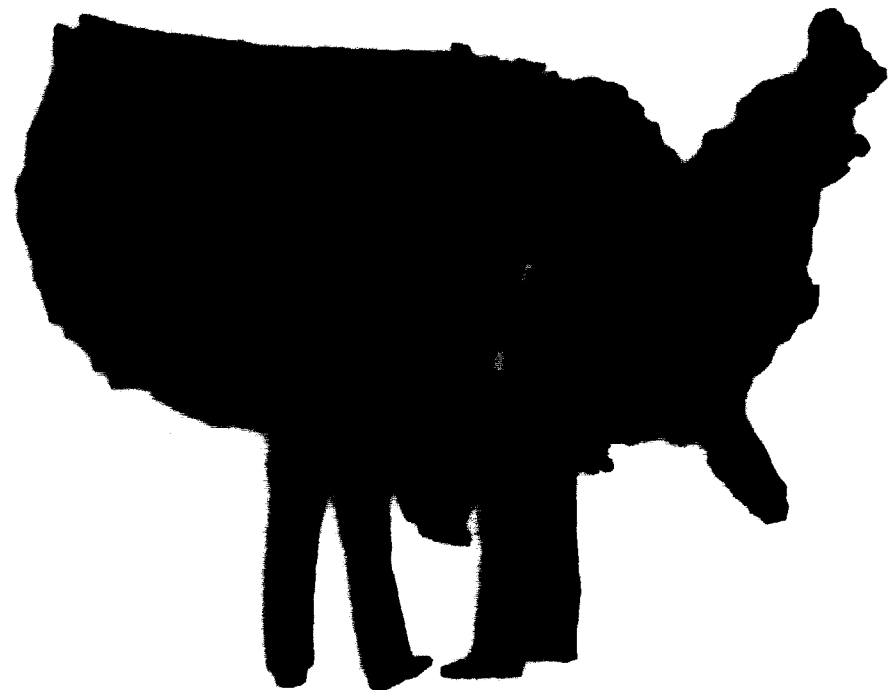
**Presentation to:
Ken McClure
Missouri PSC**

**Martha Hogerty
Office of Public Counsel**

May 30, 1996

GTE Telephone Operations

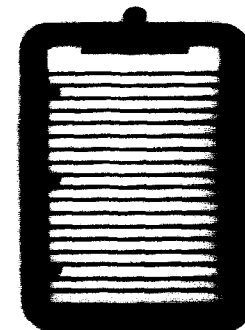
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Universal Service

Outline

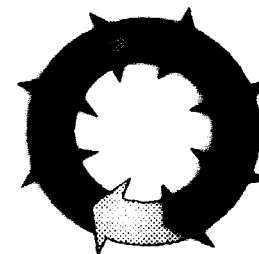
- **Purpose**
- **Criteria**
- **Basic Telephone Service**
- **Types of Support Provided**
- **Determining USF Support Amount**
- **USF Eligibility for New Entrants**
- **Opt-In or Opt-Out**
- **Contributions to the Fund**
- **Concluding Thoughts**



Universal Service

Purpose

- Ensure that Basic Telephone Service (BTS) is universally available at a reasonable price
- To the degree that market intervention by government requires BTS to be provided at below-cost prices, such intervention should be funded by an explicit funding mechanism



Universal Service

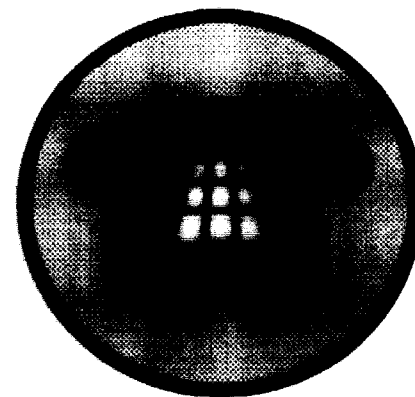
Principles

- **Basic Telephone Service availability to residential customers at a reasonable price**
- **Competitively neutral funding, both collection and distribution**
- **Structural neutrality, i.e., not based upon ownership
(Does not bias the decision to sell or buy serving areas)**

Universal Service

Basic Telephone Service

- Local distribution and switching
- Access to interexchange (toll) service (Inter and IntraLATA)
- Single party availability
- Touch call
- Access to Telephone Relay Service (for hearing and speech impaired☐)
- Access to Emergency Services (e.g., 911, E-911)
- Directory Assistance and Listings



Universal Service

Types of Support Provided

■ Income-Based Support

- Customer meets income qualification
- Certification of qualification provided by gov't. agency
- Portable among common carriers providing BTS

■ High-Cost Support

- Portable among Universal Service Providers (USPs)*
- Paid to USP when market intervention requires the provision of a residential BTS at prices less than required to cause voluntary service provision

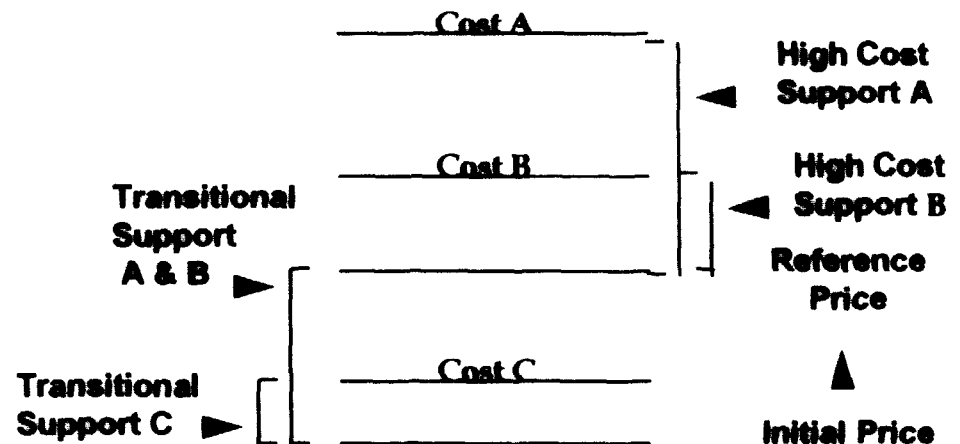
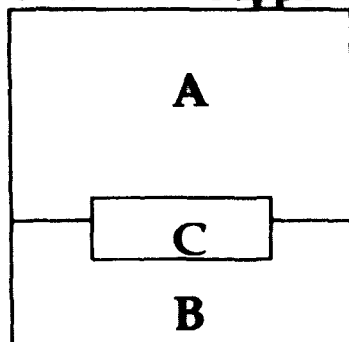
■ Amortization of under-depreciated facilities installed to fulfill USP responsibilities prior to bill passage

***Often referred to as "Carrier of Last Resort (COLR)"**

Universal Service

Determining Initial BTS Support Amount Based on LEC Cost

LEC Service Area divided
into three BTS Support Areas



$$\frac{\text{Estimated Cost/Line} = f(\text{Density, Distance, ?})}{\text{Sum of Est. Cost for A, B \& C}} = \text{Adjustment Factor}$$

$$\text{Adj. Cost for A} = \text{Estimated Cost for A} \times \text{Adj. Factor}$$

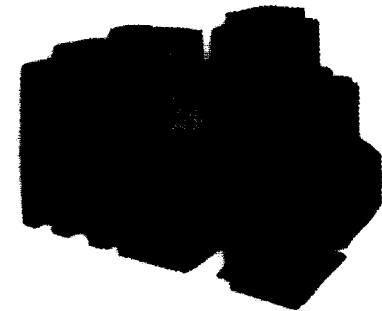
Current rate transitions to the lesser
of the Reference Rate or the
Adjusted Cost over five years

Universal Service

Competitive Bidding Process

To assign USP responsibility and determine BTS support amount

- **State Regulators administer a bidding process**
- **Qualified providers bid the amount of USF support needed in addition to the Reference Price to be a Universal Service Provider**
- **Lowest bid becomes the new level of support for a minimum period of time (suggest five years)**
- **Successful bidder must assume role of USP at prescribed prices**
- **Other qualified bidders may also be USPs and receive support at the new level**



Universal Service

Opt-In or Opt-Out

If the incumbent USP is an unsuccessful bidder, it may:

■ Opt-In

- **Remain a USP at the new support level**
- **Make facilities/services available for resale at controlled prices (Facility provider receives USF support)**

■ Opt-Out

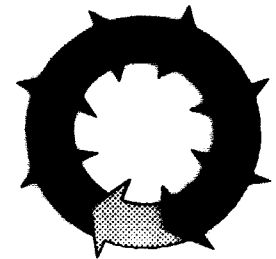
- **Be classified as a nondominant ☐ carrier**
- **Offer service at unregulated prices**
- **Make facilities/services available for resale at unregulated prices (If reseller is a USP, it receives USF support)**

Universal Service

Contributions to the Fund

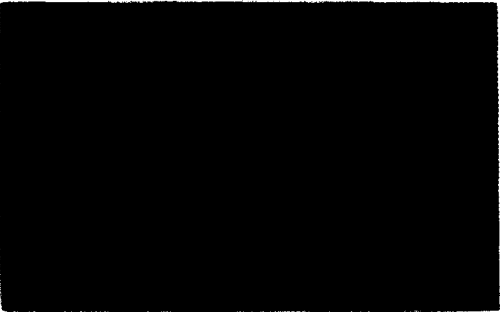
A surcharge on retail sales* of all telecommunications services

***Limitation to retail sales avoids double counting of access services, resold services, etc.**



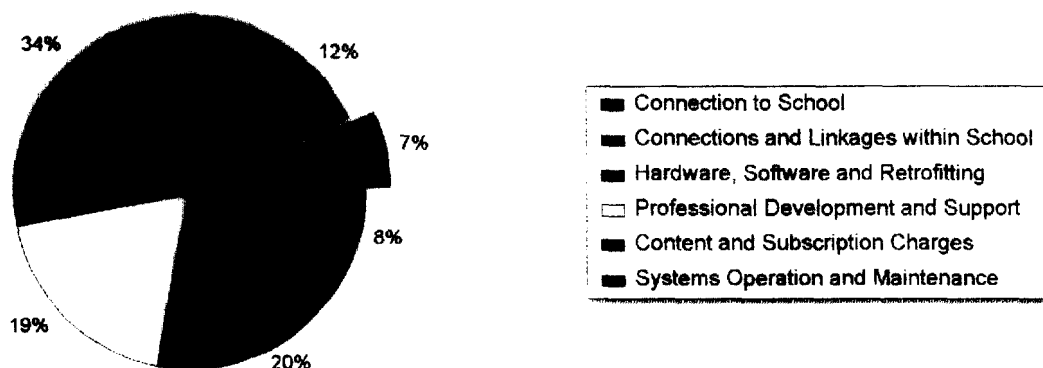
Universal Service

Concluding Thoughts

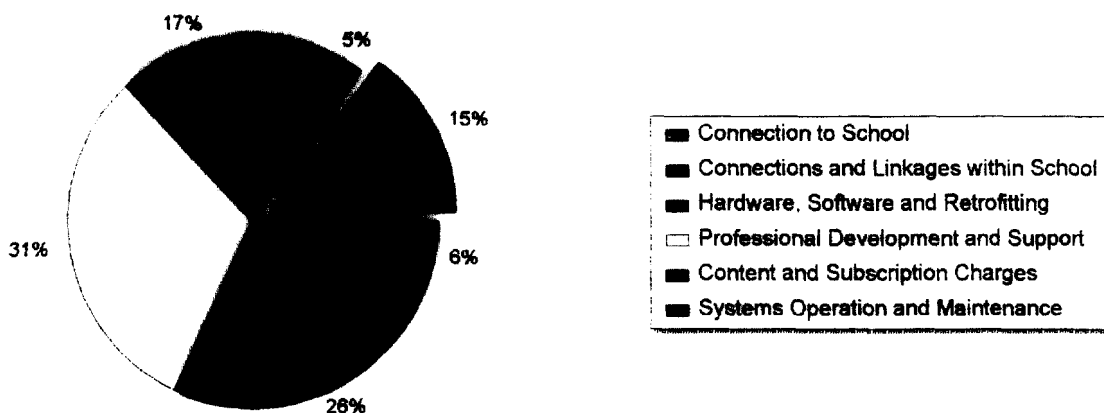
- **This proposal facilitates competition and entry for local exchange services, promotes efficiency, and maintains reasonable rates for universal service.**
 - **Any carrier of last resort funding, where it is found to be necessary, would be available to any company electing to undertake COLR responsibility.**
 - **There may be multiple carriers of last resort in any given market.**
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Cost of Deploying and Operating Computer Infrastructure K-12 Public Schools - "Laboratory Model"

Initial Deployment Costs - \$11 Billion



Annual Operating Costs - \$4 Billion

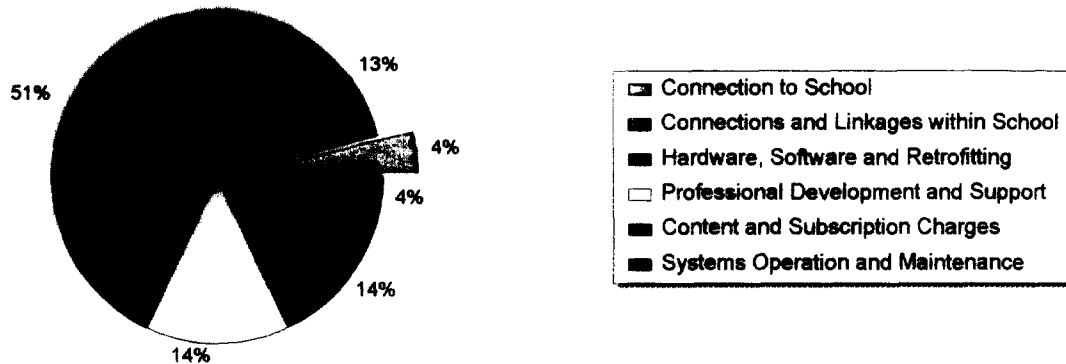


Single laboratory room with 25 computers; ethernet LAN in laboratory; 10 telephone lines;
Deployment accomplished over 5 years.

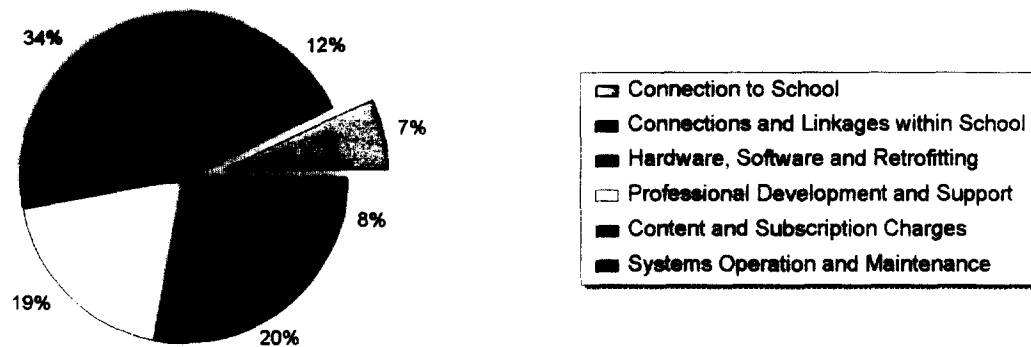
Source: KickStart Initiative; Connecting America's Communities to the Information Superhighway.
United States Advisory Council on the National Information Infrastructure; 1995.

Cost of Deploying and Operating Computer Infrastructure K-12 Public Schools - "Classroom Model"

Initial Deployment Costs - \$47 Billion



Annual Operating Costs - \$14 Billion



All classrooms have 1 computer per 5 students; ethernet LAN connecting all classrooms;
T-1 connection. Deployment accomplished over 10 years.

Source: KickStart Initiative; Connecting America's Communities to the Information Superhighway.
United States Advisory Council on the National Information Infrastructure; 1995.

GTE Texas (Revised Model)

Number of Census Blocks 2,440

Number of CLLI Codes 320

Lines (vs) Households

Total 1994 Residence Lines	975,421
Total Households	899,710
Residence Lines / Household	1.084

Residence Lines As Percent of Total

Residence Lines	975,421
Business Lines	374,653
Total 1994 Access Lines	1,350,074
Percent Residence Lines	72.25%

Comparison to 1994 Reported USF Costs

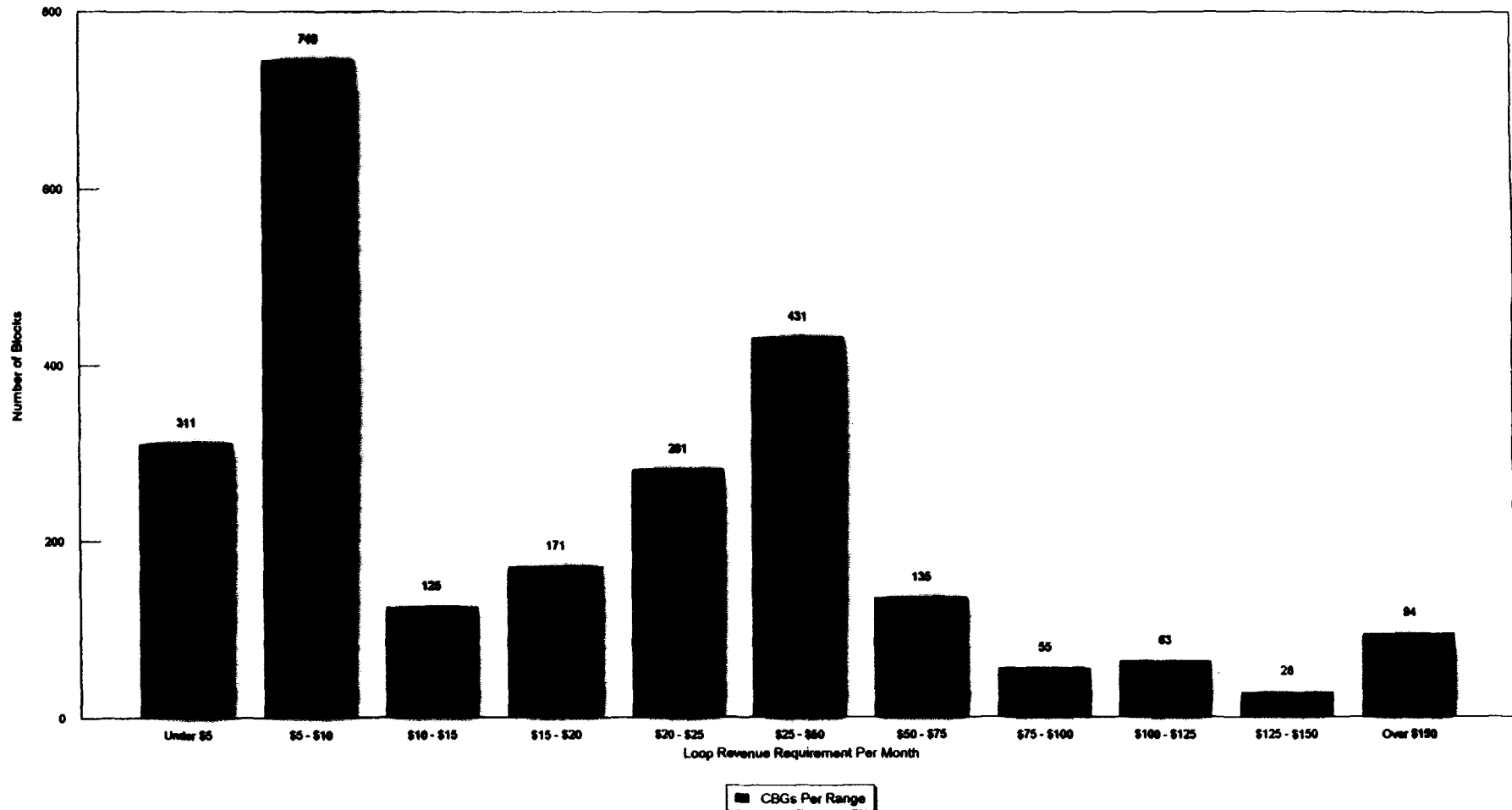
	Per Books	Residence Allocation	Multiplier to Model
Total Modeled Loop Costs		653,877,806	
1994's USF Booked Cable & Wire Facilities Investment - Line 255	1,507,590,924	1,089,226,107	0.60
1994's USF Loop Revenue Requirement - Line AL25	430,703,966	311,181,234	2.10

Data Overview

	Total	Maximum	Minimum
Total Distance (feet)	27,459,257	83,216	101
Number of Household / CBG	885,541	3,724	2
Total Area in Census Blocks (Sq. Mi.)	59,341.57	1,411.48	0.02
Avg Households per Sq. Mi. (Density)	14.92	24,913.01	0.09
Avg Model Cost per HH (annual)	727	12,375	43
Avg Model Cost per Residence Line	670	11,414	39

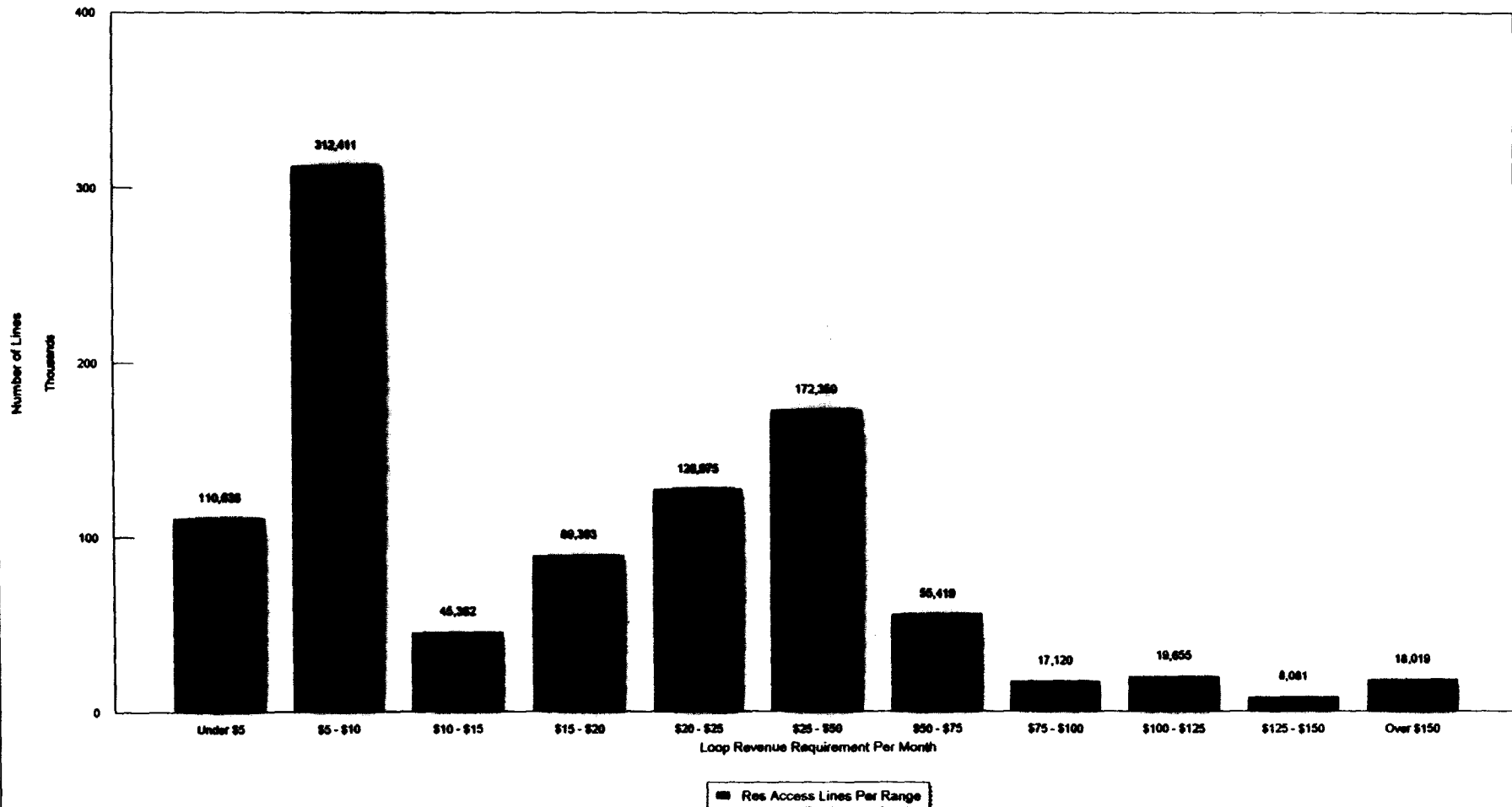
GTE Texas (Revised Model)

Distribution of 2,440 Census Block Groups



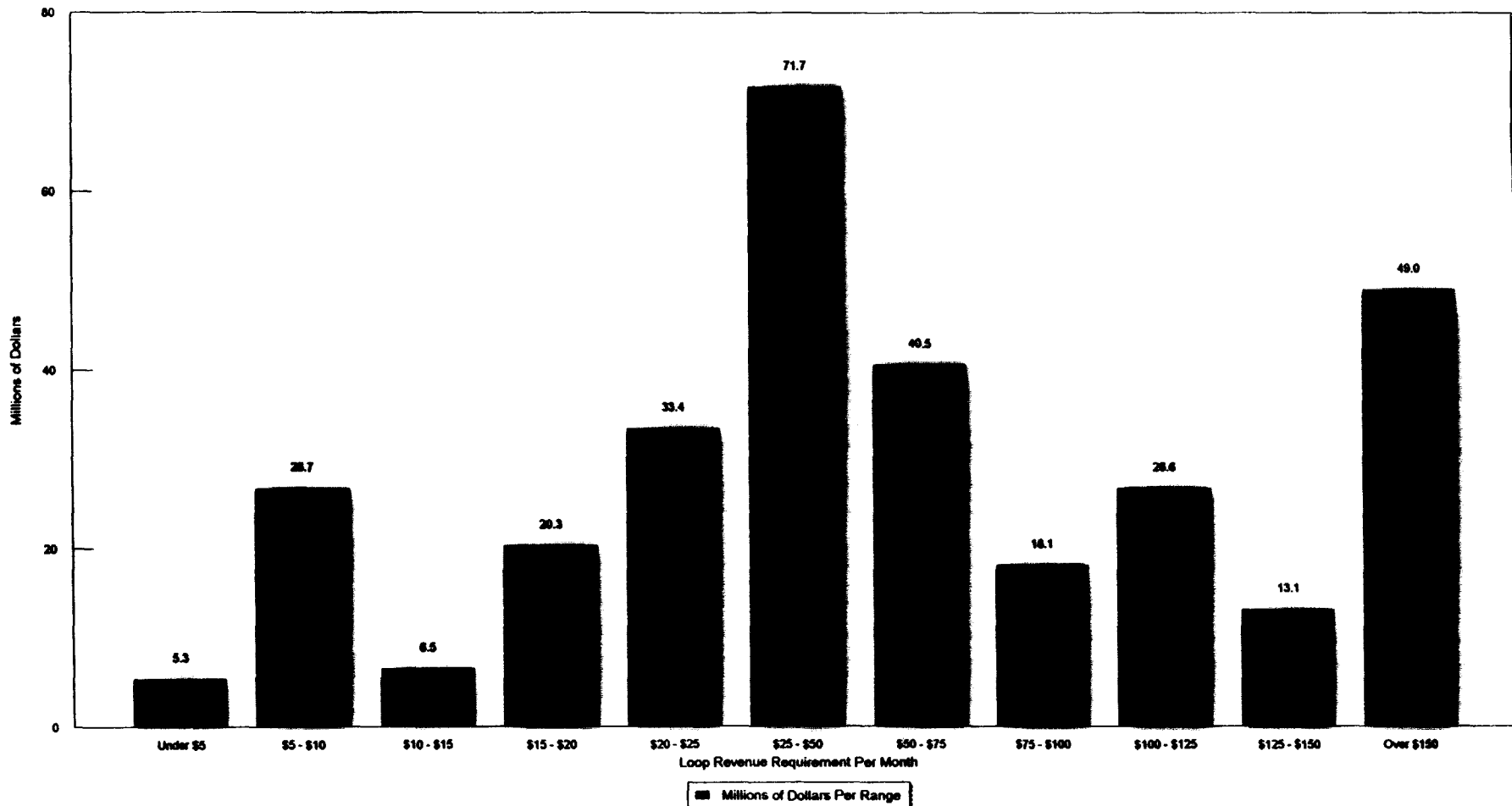
GTE Texas (Revised Model)

Distribution of 975,421 Residence Access Lines

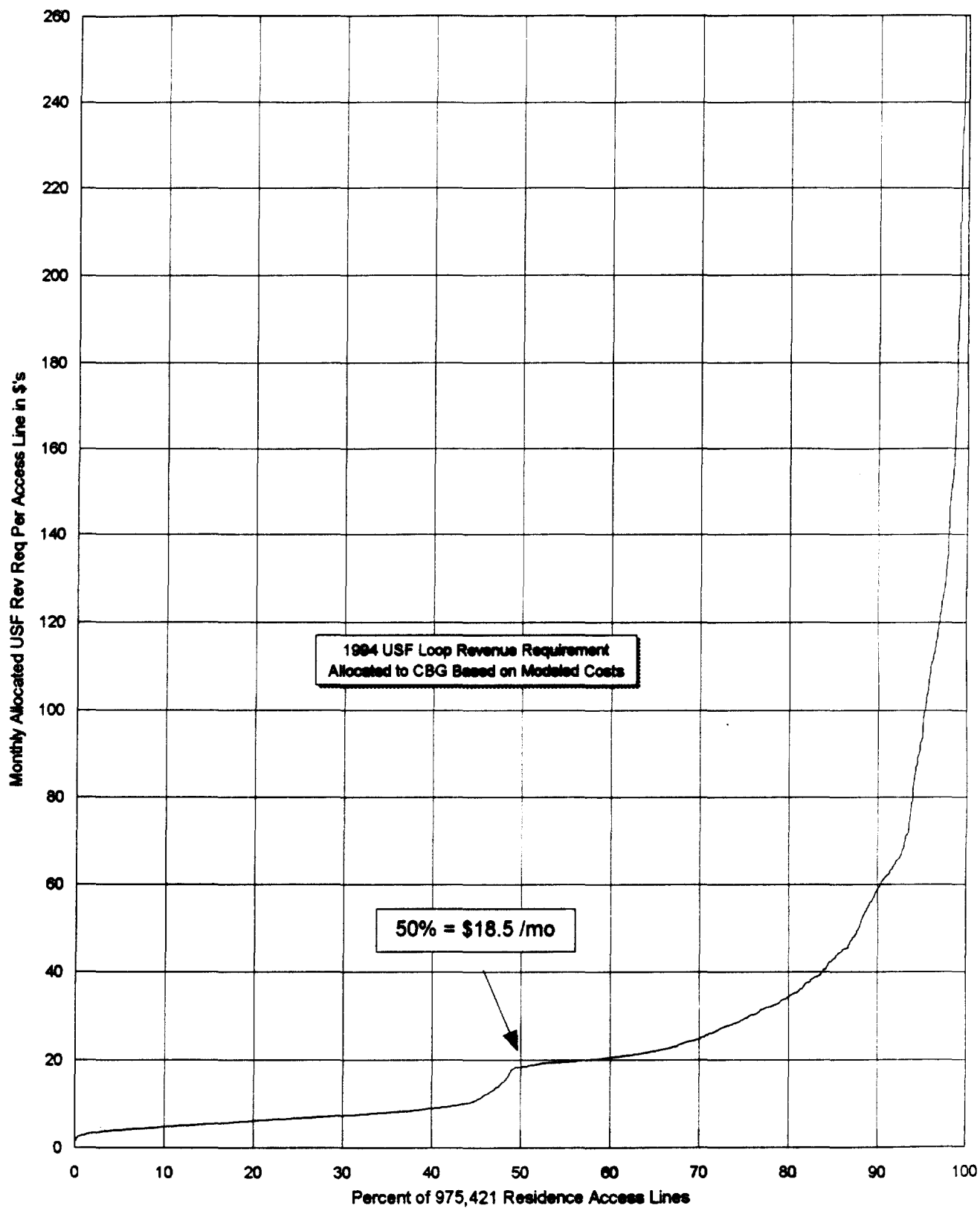


GTE Texas (Revised Model)

Distribution of \$311.2 M Residence Loop Revenue Requirement



GTE Texas (Revised Model)
Monthly Revenue Requirement Per Residence Access Line



Contel Texas (Revised Model)

Number of Census Blocks 519

Number of CLLI Codes 172

Lines (vs) Households

Total 1994 Residence Lines	180,976
Total Households	178,977
Residence Lines / Household	0.899

Residence Lines As Percent of Total

Residence Lines	180,976
Business Lines	31,426
Total 1994 Access Lines	192,402
Percent Residence Lines	83.67%

Comparison to 1994 Reported USF Costs

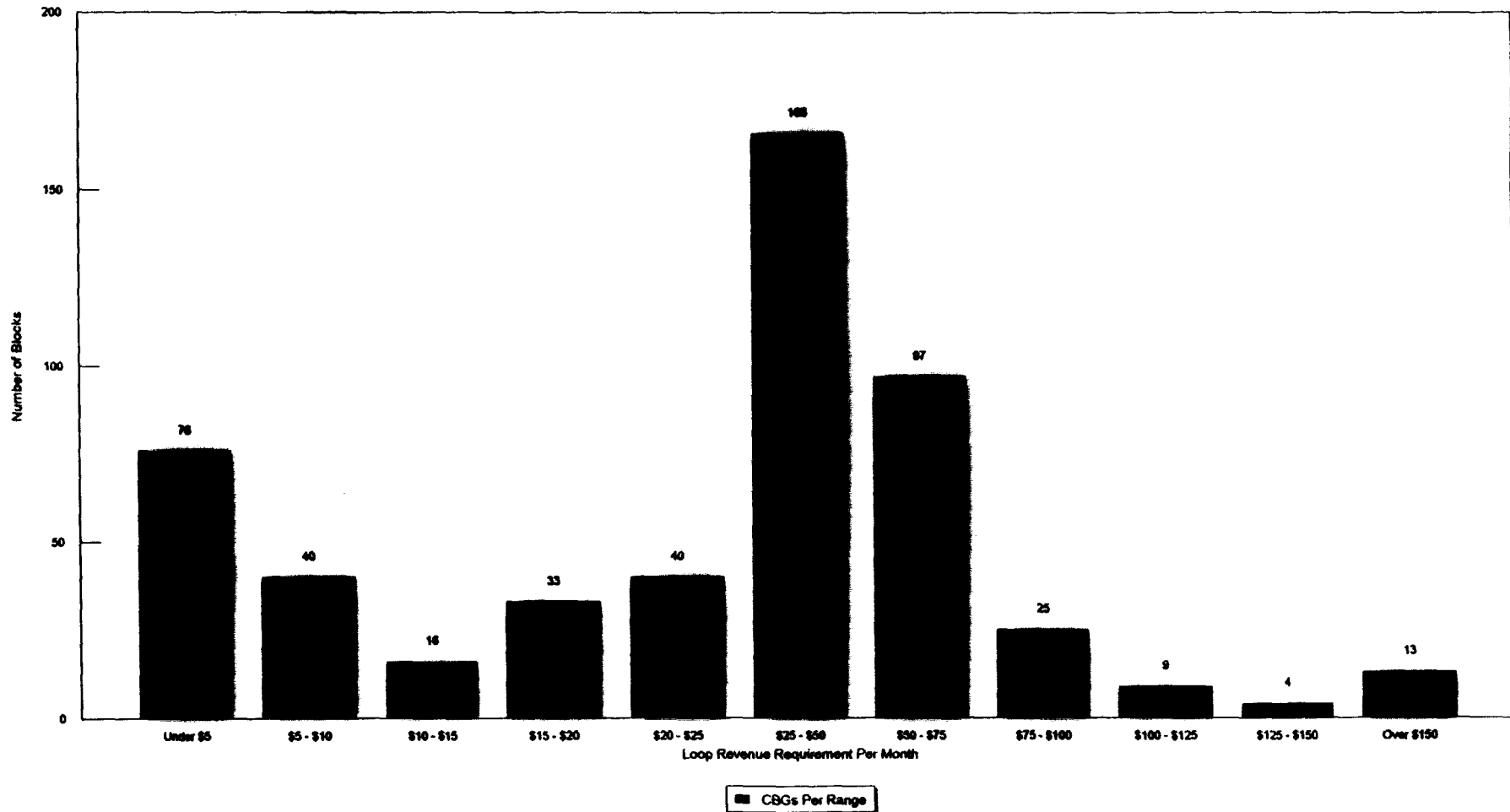
	Per Books	Residence Allocation	Multiplier to Model
Total Modeled Loop Costs		288,552,476	
1994's USF Booked Cable & Wire Facilities Investment - Line 255	330,025,992	276,121,163	1.04
1994's USF Loop Revenue Requirement - Line AL25	81,284,099	68,007,553	4.21

Data Overview

	Total	Maximum	Minimum
Total Distance (feet)	9,762,178	126,385	298
Number of Household / CBG	178,977	1,580	28
Total Area in Census Blocks (Sq. Mi.)	38,325.95	3,675.18	0.10
Avg Households per Sq. Mi. (Density)	4.67	1,441.74	0.04
Avg Model Cost per HH (annual)	1,601	17,585	69
Avg Model Cost per Residence Line	1,780	19,551	77

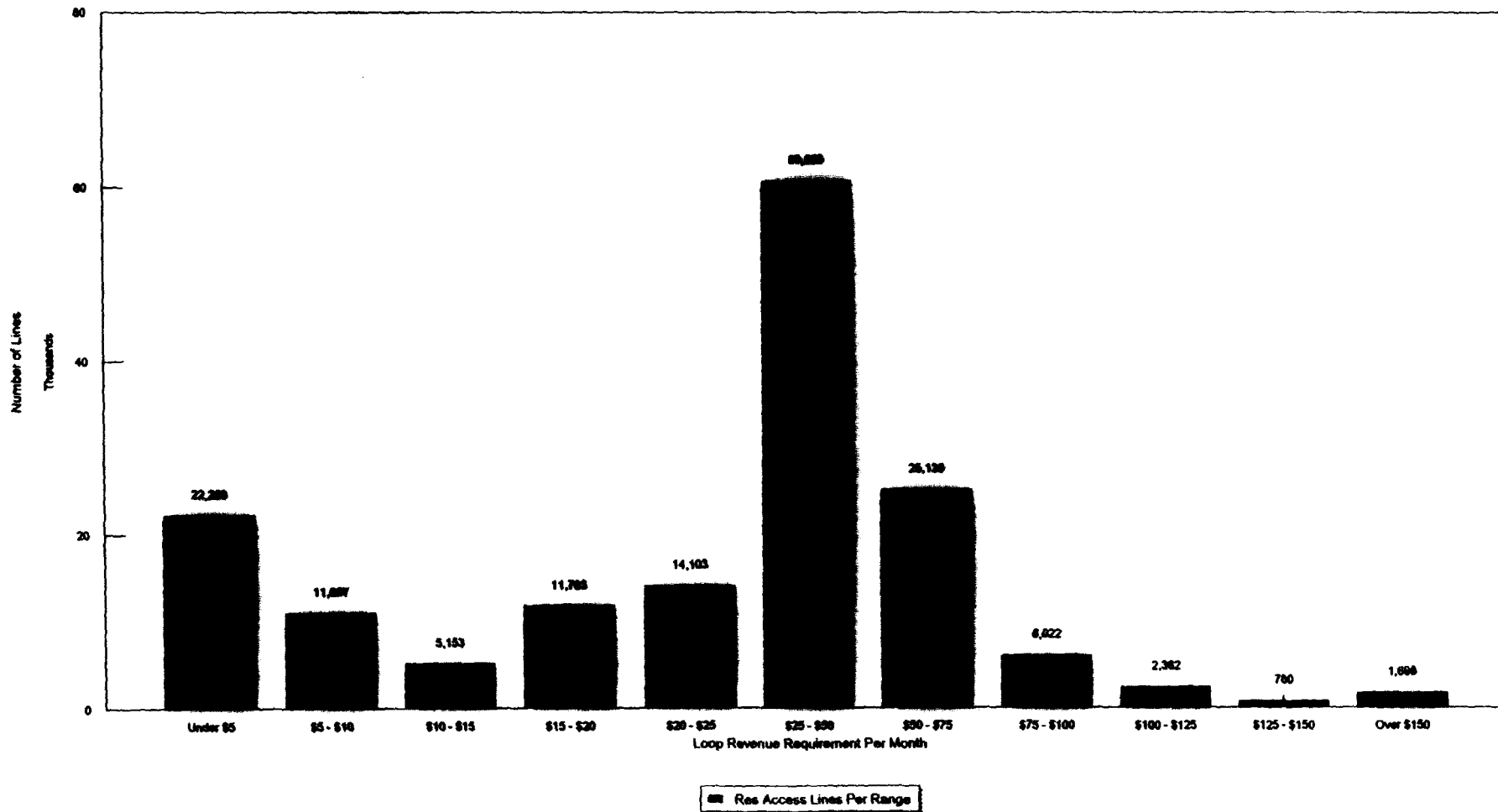
Contel Texas (Revised Model)

Distribution of 519 Census Block Groups



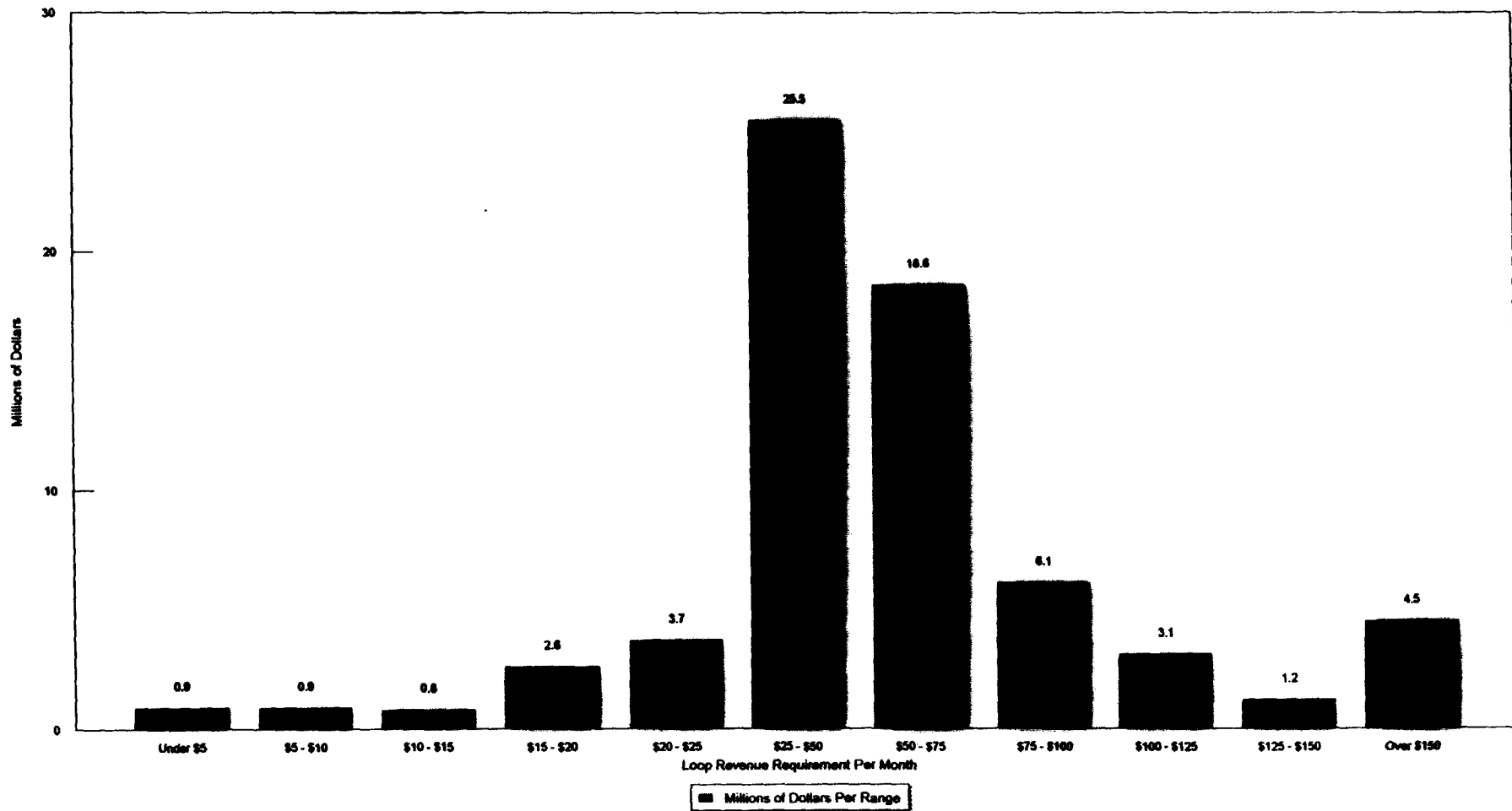
Contel Texas (Revised Model)

Distribution of 160,976 Residence Access Lines

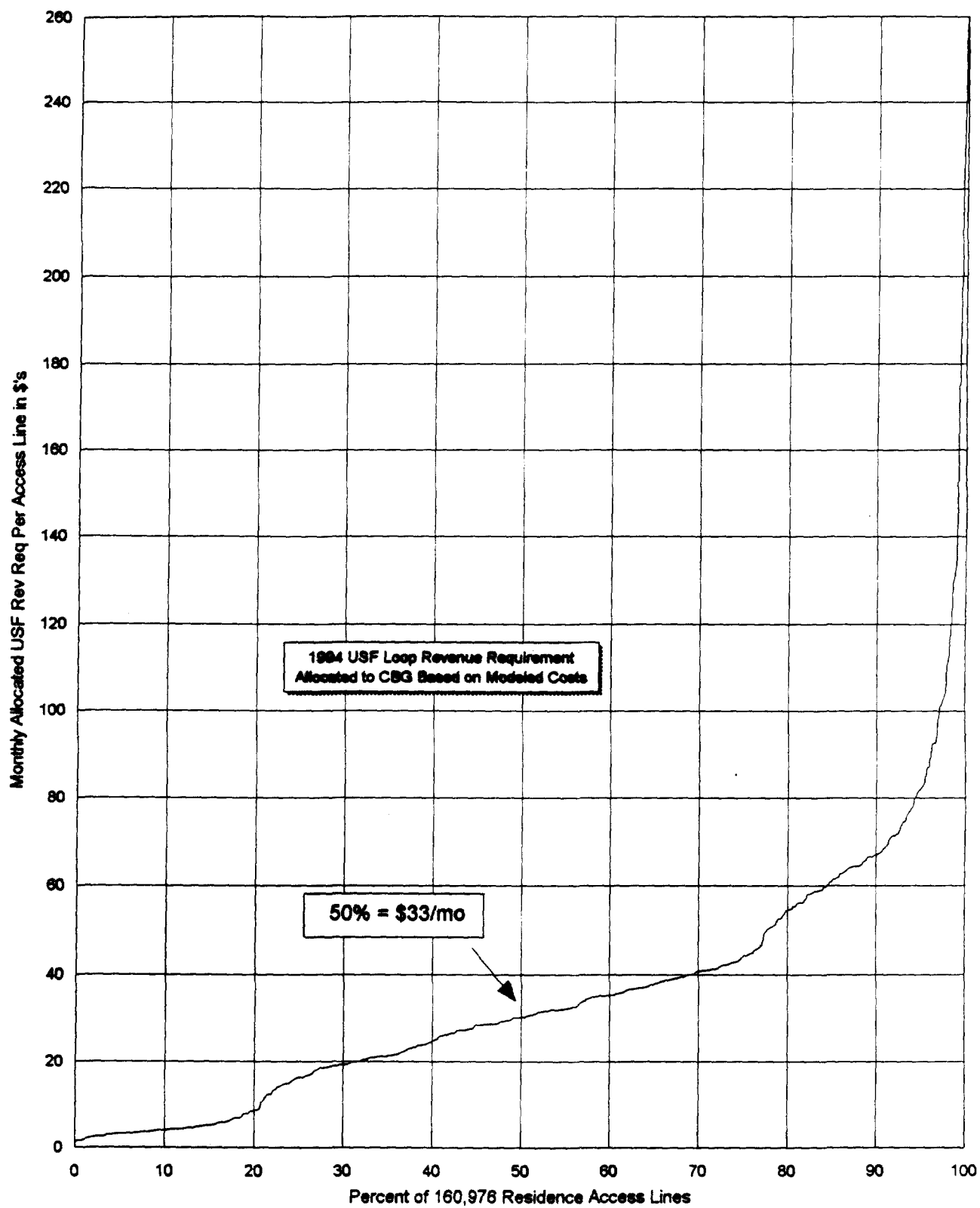


Contel Texas (Revised Model)

Distribution of \$67.9 M Residence Loop Revenue Requirement



Contel Texas (Revised Model)
Monthly Revenue Requirement Per Residence Access Line



SCHEDULE 1

